



Talking Points

TP-94-Taxation

Staff Contact: Bob Ludke(202) 224-3232

July 10, 2000

Senate Democrats Support Immediate Estate Tax Relief

Under current law, all estates are eligible for a general estate tax exemption of \$675,000. Family-owned small businesses and farms are eligible for a \$1.3 million exemption. Married couples are able to combine each of these exemptions for a total general exemption of \$1.35 million or \$2.6 million for small businesses and farms.

As a result, 98 percent of all estates are not subject to the estate tax. Of the remaining two percent of taxable estates, only three percent of those are family-owned small businesses and farms. Currently, the very wealthiest estates — the top 1/10 of the wealthiest one percent — pay 50 percent of the entire estate tax burden.

Democratic alternative provides immediate relief. The Democratic alternative would increase the general exemption from \$675,000 to \$2 million by 2001. By 2010, the general exemption would be \$4 million. Increasing the general exemption would eliminate the tax on two-thirds of the estates currently subject to the tax each year.

The Democratic alternative would also increase the exemption for family-owned small businesses and family farms from \$1.3 million in current law to \$4 million by 2001. By 2010, the exemption would reach \$8 million.

Currently, only three percent of all family-owned small businesses and family farms are subject to the estate tax. By increasing the exemption, the Democratic alternative would eliminate the tax on virtually all farms and 75 percent of the small businesses currently subject to the tax. That is, the Democratic alternative would exempt all but one-half to one percent of all small businesses.

Democratic alternative is fiscally responsible and would allow us to address the nation's priorities. The Democratic alternative is fiscally responsible. With a cost of \$64 billion over 10 years, resources remain to address key priorities such as eliminating the national debt, providing for responsible tax relief, providing for a Medicare prescription drug benefit, investing in education, and ensuring the long-term health of Social Security and Medicare.

GOP plan only provides gradual relief and does not remove a single estate from the tax until 2010. In comparison, Republicans support a plan that would gradually reduce the estate tax and eventually eliminate the tax by 2010. There are a number of flaws to the Republican plan:

X Not a single taxpayer is removed from the estate tax for 10 years.

Unlike the Democratic alternative that provides immediate relief for estates, **H.R. 8** gradually reduces the estate tax rates over 10 years. This means that all estates would still be subject to the estate tax, but at a slightly lower tax rate.

X Little or no relief for family farms and small businesses for 10 years.

Under **H.R. 8**, not a single farmer or small business owner would be exempted from the estate tax until it is fully repealed in 2010.

X Massive revenue loss.

By phasing in **H.R. 8**, the Republicans hide the true cost of the bill. **H.R. 8** costs \$105 billion between 2001 and 2010, but rapidly increases to \$750 billion between 2010 and 2020.

There is a clear choice – responsible, immediate estate tax relief or a massive tax break that costs too much. The Democratic alternative provides immediate estate tax relief in a fiscally responsible manner. This plan would remove the vast majority of all estates from the estate tax, and it would leave the resources necessary to address the other key priorities of the nation.

Not only would the Republican plan not remove a single taxpayer from the estate tax for 10 years, but its projected revenue loss explodes at the time the baby boomer generation retires. With a price tag of \$750 billion between 2010 and 2020, the Republican plan would exhaust the resources necessary to eliminate the national debt, provide responsible tax relief, fund a Medicare prescription drug benefit, invest in education, and ensure the long-term solvency of Social Security and Medicare.

Republican Estate Tax Bill

It's far too costly, and it won't eliminate the estate tax for a single estate until 2010.

vs.

Democratic Alternative

Exempts all but seven-tenths of one percent of estates.

	Democratic Alternative	Republican Bill
Basic Exemption.	Raises basic exemption from \$675,000 to \$4 million per married couple by 2010. Therefore, a couple with \$4 million or less in assets will be completely exempt from the estate tax.	Does not raise the basic exemption. As a result, no estates are exempted from the estate tax for ten years.
Immediate Relief for Farms and Small Businesses. Currently, only 2% of all small businesses and family farms are subject to the estate tax.	Increases the exemption from \$2.6 million per couple to \$8 million per couple by 2010. Under the Democratic alternative, 75% of small businesses and almost all farms currently subject to the estate tax would be removed from the tax.	Does not increase exemption and does not remove any farms and small businesses from the estate tax for 10 years. Gradually phases in relief over 10 years.
Cost.	\$61 billion over 10 years.	Costs \$105 billion over 10 years and \$750 billion over the next 10 years.
Charitable contributions.	Continues to encourage charitable contributions.	Could discourage \$250 billion in charitable contributions over 10 years.
Chances of enactment.	President will sign into law.	President will veto H.R. 8 .
Complexity.	Simple increase in current law exemptions.	Increases complexity with the return of the carryover basis provisions that were repealed by Congress in 1978 because they were too complex.